1997-98 SESSION COMMITTEE HEARING RECORDS

Committee Name:

Joint Committee on Finance (JC-Fi)

Sample:

Record of Comm. Proceedings ... RCP
- 05hrAC-EdR_RCP_pt01a
- 05hrAC-EdR_RCP_pt01b
- 05hrAC-EdR_RCP_pt02

- Appointments ... Appt
- **

- Clearinghouse Rules ... CRule
- **

- Committee Hearings ... CH
- **

- Committee Reports ... CR
- **

- Executive Sessions ... ES
- **

- Hearing Records ... HR
- **

- Miscellaneous ... Misc
- 97hrJC-Fi_Misc_pt101a_LFB

- Record of Comm. Proceedings ... RCP
- **

Revenue

Lottery Administration

(LFB Budget Summary Document: Page 530)

LFB Summary Items for Which Issue Papers Have Been Prepared

Item #	Title
-	Overview of Lottery Resources and Their Relationship to Sales Revenue (Paper #720)
5	Lottery Division Reorganization (Paper #721)
6	Ticket Printing and On-Line Communication Costs (Paper #722)
7	Retailer Compensation and Incentive Bonus (Paper #723)
8	Lottery Television Broadcasts (Paper #724)
9	Instant Ticket Vending Machines (Paper #725)
10	Lottery Vendor Fees (Paper #726)
16	Modification of Lottery Expense Limitation (Paper #727)
17	Transfer Gaming Board Lottery Responsibilities to Revenue (see Paper #395)
19	Multijurisdictional Lotteries (Paper #728)
-	Lottery Advertising (Paper #729)
2	Lottery Credit -- Distribution Formula (Paper #730)
4	Lottery Credit -- Precertification (Paper #731)

To: Joint Committee on Finance

From: Bob Lang, Director
Legislative Fiscal Bureau

ISSUE

Overview of Lottery Resources and Their Relationship to Sales Revenue (Revenue -- Lottery Administration)

DISCUSSION POINTS

1. The Committee will be reviewing nine budget issue papers concerning state lottery administration, seven of which deal with the provision of funding for lottery operations. Some papers relate entirely to the Governor's recommendations under SB 77. These include papers on retailer compensation (#723), television broadcasts (#724), instant ticket vending machines (#725), the 15% limitation on lottery operating expenditures (#727) and multijurisdictional lotteries (#728).

2. Other papers address proposals made under a lottery stabilization plan submitted to the Committee by the Secretary of the Department of Revenue (DOR) on April 25, 1997. Paper #721, which deals with the reorganization of the lottery staff proposed by the Governor, also addresses the additional staffing proposed under the DOR plan, as well as a request for funding to institute an employe incentive bonus program. The advertising proposal under the DOR plan is dealt with in paper #729. A technical modification paper (#722) would correct funding levels for ticket printing and telecommunication costs, as recommended in the DOR plan, based on updated cost information. Finally, the paper addressing the Governor's vendor fees recommendations (#726) includes a correction in the vendor fees calculation that is requested in the DOR plan.

3. Lottery sales in 1996-97 are currently estimated at $430.0 million and, under the bill, would be projected at $440.4 million annually in 1997-99. The DOR lottery plan indicates that, if the additional funding and position authorization requested under the plan are approved (in addition to the Governor's recommendations), lottery sales could be reestimated from $440.4 million annually to $470 million in 1997-98 and $500 million in 1998-99.

4. DOR based the sales reestimates on a number of factors, including: (a) discussions with lottery officials in other states on those states' sales experiences after instituting similar proposals: (b) discussions with telemarketing experts on the potential impacts of increased telemarketing efforts; and (c) subjective judgements by lottery officials on the cumulative impact of the proposals.

5. Each request made under the DOR plan does not, however, have an associated projected sales increase. Rather, taken together, the increases requested under the plan would result, the Department believes, in the estimated sales increases.

6. While it can be argued that any increase in lottery operational resources could have a positive effect on sales, the magnitude of this potential effect is difficult to estimate. Lottery sales may increase or decrease over time for any number of reasons and the effect on sales caused by any one change is impossible to isolate.

7. Further, the management of operational resources may be the most critical factor affecting sales. Current base level lottery resources have not been fully utilized in the current biennium. As noted in a recent Legislative Audit Bureau report, the vacancy rate of the state lottery reached 63.5% earlier this year. Under the Governor's lottery reorganization recommendation, approximately 42 vacant positions would be available for rehiring (nearly doubling the current staffing of 50.5 filled positions).

8. It could be argued that improved management practices and filling vacant positions would be the most effective measures to take for the improvement of lottery sales. Increasing other resources could provide additional tools to this end, but may not be as significant a factor as the management of current resources.

9. Given the difficulty in isolating the effect of individual budget provisions on lottery sales, particularly in the context of a major rehiring process and the likelihood of changing lottery management practices, the following issue papers do not attempt to provide sales estimates associated with each paper.

10. Instead, following the Committee's decisions relating to these papers, this office will provide an additional paper on the lottery fund condition. This paper will provide reestimates based on recent sales activity and the Committee's actions relating to the lottery. In addition, it will reestimate the amount of lottery proceeds that would be available for lottery property tax credits.

MO#________

				BURKE	Y	N	A
				DECKER	Y	N	A
				GEORGE	Y	N	A
JENSEN	Y	N	A	JAUCH	Y	N	A
OURADA	Y	N	A	WINEKE	Y	N	A
HARSDORF	Y	N	A	SHIBILSKI	Y	N	A
ALBERS	Y	N	A	COWLES	Y	N	A
GARD	Y	N	A	PANZER	Y	N	A
KAUFERT	Y	N	A				
LINTON	Y	N	A				
COGGS	Y	N	A				

AYE _____ NO _____ ABS _____

Prepared by: Art Zimmerman

To: Joint Committee on Finance

From: Bob Lang, Director
Legislative Fiscal Bureau

ISSUE

Lottery Division Reorganization (Revenue -- Lottery Administration)

[LFB Summary: Page 533, #5]

CURRENT LAW

Base funding and position authority for the general program operations of the lottery is $24,817,200 SEG and 130.0 SEG positions.

GOVERNOR

Delete $1,831,400 SEG and 31.5 SEG positions annually to reflect a reorganization of Lottery Division staff and functions. Under the bill, the Lottery Division would retain a division administrator position and be authorized a new deputy administrator position, converted from a vacant administrative officer position.

The reorganized division would include three bureaus: operations, marketing and retailer relations and administration. The reduction of 31.5 positions (in conjunction with the deletion of 6.0 project positions under standard budget adjustments) would provide the lottery with 92.5 positions allocated as follows: (a) 26.5 positions for operations; (b) 32.0 positions for marketing and retailer relations; and (c) 34.0 positions for administration (including 9.0 positions assigned to the Department's Administrative Services Division and 1.0 position each assigned to the Research and Analysis Division, the Secretary's Office and Legal Services).

The funding reduction includes -$440,100 annually to reflect the estimated cost of instant ticket data processing that had previously been performed in-house. This function is now contracted out and funding is provided under a separate item relating to vendor fees (see LFB Summary: Page 535, Item #10).

DISCUSSION POINTS

1. The 1995-97 biennial budget act (Act 27), provided for the transfer of the state lottery, including 130.0 SEG positions, from the Gaming Commission to the Department of Revenue (DOR) on July 1, 1996. As enacted by the Legislature, the transfer would have occurred following a one-year planning process during which the Joint Committee on Finance would have reviewed and approved three transition plans. These plans were to address: (a) implementation issues relating to the transfer; (b) issues relating to the implementation of privatization initiatives recommended by the Governor, including oversight mechanisms and the reduction of state lottery staff; and (c) the coordination of gaming security functions.

2. This planning and transition process was item vetoed by the Governor and, following the execution of a memorandum of understanding between the Gaming Commission and DOR on August 17, 1995, the administration and operation of the state lottery was immediately assumed by DOR.

3. Two major contracts have been awarded in 1996-97 as a result of the state lottery privatization initiative. A new, on-line lottery vendor contract was awarded to GTech Corporation and is scheduled to begin in May, 1997. A second contract for instant ticket data processing, which has previously been performed by the state lottery, was awarded to GTech Corporation and will also begin in May, 1997. A third major contract, for warehousing and retailer support and services, was also bid, but no award has been made. These functions will continue to be performed by state lottery staff.

4. According to DOA officials, the Governor's recommendation to reduce lottery position authority from 130.0 to 92.5 positions reflects this privatization initiative and an adjustment of staffing to a level appropriate to allow the lottery to function more efficiently. The DOR budget request for the lottery included a similar reduction ($1,233,100 and 29.5 positions annually) which would have resulted in position authority for 94.5 permanent and 6.0 project positions. The Governor's provisions would provide two fewer permanent positions than originally requested by the lottery.

5. The Governor's recommendation would delete $598,300 more in each year than the DOR lottery budget request. Of this amount, $158,200 relates to the position costs associated with the two positions the Governor did not provide. The remaining $440,100 deleted under the bill is comprised of $263,400 in supplies and services and $176,700 in permanent property base funding associated with the instant ticket data processing system that has been state operated and will now be contracted out.

6. In March, 1997, the Legislative Audit Bureau (LAB) reported on an evaluation of the state lottery. The LAB attributes the decline in sales over the last two years primarily to the combined effect of an accelerated attempt to privatize certain lottery functions while rapidly downsizing state lottery staff. The manner in which the changes took place caused: (a) lottery retailer services to deteriorate beginning in 1995-96; (b) an interruption in the introduction of new scratch ticket games in 1996-97; and (c) a significant increase in vacant lottery positions through the period (resulting in a vacancy rate of 63.5% when the report was prepared).

7. Based on the level of staffing under the bill, the lottery currently has a 45.4% vacancy rate, with 42 vacant positions.

8. The Secretary of Revenue, as part of a lottery resource plan submitted to the Committee on April 25, 1997, is now requesting additional staffing that would, if approved, add 37.0 positions to the 92.5 recommended by the Governor, for total lottery position authority of 129.5 positions in 1997-99. The request would total $2,010,300 SEG with 37.0 positions beginning in 1997-98 and $2,023,900 SEG in 1998-99, as follows:

- $1,514,900 in 1997-98 and $1,567,500 in 1998-99 for 27.0 customer service positions (including 2.0 supervisors) to perform retailer support services to assist retailers in obtaining a variety of skills and knowledge necessary to maximize lottery sales, including: (a) developing business plans for all retailers to enhance sales; (b) in-the-field training relating to new retailers and new lottery products; (c) advising retailers on lottery products, policies and procedures; (d) working with retailers on the placement of and budgeting for point-of-sale materials and displays; and (e) planning and coordinating occasional retailer special events. In addition to the salary and fringe benefits relating to the positions, the request includes supplies and services funding ($417,100 annually) that would support travel costs and the operation and leasing of three additional field offices and one-time funding ($235,000) for laptop computers and one-time improvements to the leased regional office space.

- $495,400 in 1997-98 and $456,400 in 1998-99 for 10.0 additional customer services specialist positions (telemarketing sales). In addition, 12.0 current positions would be reclassified to customer services specialist positions for a total of 22.0 telemarketing positions, including 2.0 supervisors. The positions would be responsible for: (a) taking telephone orders; (b) informing and assisting retailers on lottery policy and procedures; (c) advising retailers on new game introductions; and (d) working with retailers on marketing techniques. In addition to the salary and fringe benefits relating to the positions, the request includes one-time funding for telephone system enhancements ($72,000) and computers for the 10.0 additional staff ($60,000).

9. The new request would reverse the agency's budget request to DOA and eliminate the anticipated savings relating to the privatization initiative of the last two years.

10. The 92.5 positions recommended under the bill include a retailer management section (8.0 positions plus a supervisor) that would provide retailer services relating to contract

applications and renewals and responding to retailer requests for assistance (for example, problems with ticket deliveries or replacing ticket dispensers). While several of these positions may be available to provide some limited degree of support at the retailers' sites, the section would not have the capacity to provide the type of support envisioned in the new DOR lottery request.

11. While 27 field staff, working from regional offices, would provide a greatly expanded retailer support capacity, it could be argued that the effectiveness of this support would depend on the ability of the state lottery to train, coordinate and support a field staff of this size. In prior years, as noted in the LAB evaluation, when staffing for field services was as high as 29 positions, the staff was not well managed and did not effectively provide retailer support. The positions were primarily used for the delivery of tickets and supplies.

12. It is not clear how this number of new positions could be recruited, hired, trained and supervised (from district offices) during a time when the lottery must hire approximately 42 other positions under the bill and stabilize lottery operations across a number of fronts, including the implementation of major new contracts. If the Committee wanted to provide some increased capacity for retailer field support, it could approve 10.0 customer service positions (including 1.0 supervisor) working from the central office. These positions could concentrate on key accounts in the southern and central parts of the state and could be more effectively managed from the central office. Under this alternative, the cost for 10.0 positions would be $480,900 in 1997-98 and $574,500 in 1998-99.

13. The 92.5 positions recommended under the bill include 8.0 sales representatives, 2.0 administrative assistants, 1.0 financial specialist and 1.0 program assistant that would, under the new lottery request, be reclassified to customer services specialist positions. The reclassifications would provide higher annual starting salaries ($26,200 vs. $20,500) for most of the reclassified positions. Lottery officials argue that the higher salaries are needed to retain personnel following the training period. In the past, officials indicate that significant numbers of trained employes would transfer from the agency because higher paying positions were readily available elsewhere. The increase to base funding, and to the bill, for these reclassifications would be $64,900 annually.

14. The LAB evaluation indicates that the telemarketing staff went from 8.0 full-time equivalent positions in 1994-95 to a current staffing of one permanent position who supervises 7.0 part-time limited-term employes. The existing base level permanent positions for this function have been kept vacant.

15. It could be argued that the lottery's telemarketing functions would be greatly enhanced simply by reclassifying and filling the 12.0 base positions already provided. In addition, the position that currently supervises the LTE telemarketing positions would be appropriate to supervise the 12.0 positions. A total of 13.0 telemarketing staff would then be available, compared to 8.0 in 1994-95 when lottery sales reached a record-level $518.9 million.

16. The need for the 10.0 new telemarketing positions in the request is somewhat unclear at this time. As with the field staffing request, it could be argued that the lottery must already hire a significant number of vacant positions and stabilize lottery operations. Additional telemarketing positions might be more appropriately considered at a later date, after base level positions are in place and other lottery issues are resolved.

17. The DOR lottery stabilization plan also requests $145,200 SEG annually to establish a performance incentive bonus program to recognize lottery employe efforts as a group in attaining predetermined overall sales goals in a fiscal year. The bonus would provide $1,000 per full-time equivalent position for an estimated 117.5 lottery positions (for a total of $117,500 annually) plus fringe benefits ($27,700 annually).

The DOR request for a performance bonus for employes does not specify in detail how the program would be administered, but DOR officials indicate that the bonus would be provided to all classified lottery employes, if sales goals are met. If the sales goals are not met, the bonus would not be provided. DOR officials view the bonus as an effective tool to encourage a team approach to increase lottery sales.

A number of questions can be raised about such a bonus plan. Some of them were discussed during the May 6, 1997, meeting of the Joint Committee on Audit. For example: (1) would the bonus be provided to all employes even if some of them performed at a level that would not merit an award? (2) would a salary penalty be implemented if the goals were not met? (3) who would set the goals and how would they be determined? (4) given the classified status of most lottery employes, would a bonus need to be addressed by DER or by contract negotiations? and (5) would the bonus be included in the calculation of retirement benefits? Prior to consideration of the implementation of a bonus plan, answers to these and other questions would need to be thoroughly developed.

ALTERNATIVES TO BASE

A. Lottery Reorganization Under the Bill

A1. Adopt the Governor's recommendation to delete $1,831,400 and 31.5 positions annually to reflect a reorganization of Lottery Division staff and functions. Authorize a new deputy administrator position, converted from a vacant administrative officer position.

Alternative A1	SEG
1997-99 FUNDING (Change to Base)	- $3,662,800
[Change to Bill	*$0]*
1998-99 POSITIONS (Change to Base)	- 31.50
[Change to Bill	*0.00]*

B. Field Staff for Retailer Support Services

B1. Provide $1,514,900 SEG in 1997-98 and 27.0 SEG positions and $1,567,500 SEG in 1998-99 for retailer support services. Funding would include supplies and services funding ($417,100 annually) that would support travel costs and the operation and leasing of three additional field offices and one-time funding ($235,000) for laptop computers and one-time improvements to the leased regional office space.

Alternative B1	SEG
1997-99 FUNDING (Change to Base)	3,082,400
[Change to Bill	*$3,082,400]*
1998-99 POSITIONS (Change to Base)	27.00
[Change to Bill	*27.00]*

B2. Provide $480,900 SEG in 1997-98 and 10.0 SEG positions and $574,500 SEG in 1998-99 for retailer support services. Funding would include supplies and services funding ($109,900 in 1997-98 and $146,500 in 1998-99) that would support travel costs of the positions based in Madison and one-time funding ($50,000) for laptop computers.

Alternative B2	SEG
1997-99 FUNDING (Change to Base)	1,055,400
[Change to Bill	*$1,055,400]*
1998-99 POSITIONS (Change to Base)	10.00
[Change to Bill	*10.00]*

B3. Take no action.

C. Telemarketing Positions

C1. Provide $495,400 SEG and 10.0 SEG customer services specialist positions in 1997-98 and $456,400 SEG in 1998-99 and reclassify 12.0 current positions to customer services specialist positions for telemarketing sales. Funding would include one-time funds for telephone system enhancements ($72,000) and computers for the 10.0 additional staff ($60,000).

Alternative C1	SEG
1997-99 FUNDING (Change to Base)	951,800
[Change to Bill	*$951,800]*
1998-99 POSITIONS (Change to Base)	10.00
[Change to Bill	*10.00]*

C2. Yes Provide $64,900 SEG annually and reclassify 12.0 current positions to customer services specialist positions.

Alternative C2	SEG
1997-99 FUNDING (Change to Base)	129,800
[Change to Bill	*$129,800]*
1998-99 POSITIONS (Change to Base)	0.00
[Change to Bill	*0.00]*

C3. Take no action.

Prepared by: Art Zimmerman

MO# Alt A1

2 JENSEN	~~Y~~	N	A
OURADA	~~Y~~	N	A
HARSDORF	~~Y~~	N	A
ALBERS	~~Y~~	N	A
GARD	~~Y~~	N	A
KAUFERT	~~Y~~	N	A
LINTON	~~Y~~	N	A
COGGS	~~Y~~	N	A
1 BURKE	~~Y~~	N	A
DECKER	~~Y~~	N	A
GEORGE	Y	N	~~A~~
JAUCH	~~Y~~	N	A
WINEKE	~~Y~~	N	A
SHIBILSKI	~~Y~~	N	A
COWLES	~~Y~~	N	A
PANZER	~~Y~~	N	A

AYE 15 NO 0 ABS 1

MO# Alt #C1

JENSEN	~~Y~~	N	A
1 OURADA	~~Y~~	N	A
HARSDORF	~~Y~~	N	A
ALBERS	~~Y~~	N	A
2 GARD	~~Y~~	N	A
KAUFERT	~~Y~~	N	A
LINTON	Y	~~N~~	A
COGGS	Y	~~N~~	A
BURKE	Y	~~N~~	A
DECKER	Y	~~N~~	A
GEORGE	Y	~~N~~	A
JAUCH	Y	~~N~~	A
WINEKE	Y	~~N~~	A
SHIBILSKI	Y	~~N~~	A
COWLES	Y	~~N~~	A
PANZER	~~Y~~	N	A

AYE 7 NO 9 ABS ____

MO# Alt C2

JENSEN	~~Y~~	N	A
OURADA	~~Y~~	N	A
HARSDORF	~~Y~~	N	A
ALBERS	~~Y~~	N	A
GARD	~~Y~~	N	A
KAUFERT	~~Y~~	N	A
LINTON	~~Y~~	N	A
COGGS	Y	~~N~~	A
BURKE	Y	~~N~~	A
DECKER	Y	~~N~~	A
GEORGE	Y	~~N~~	A
JAUCH	~~Y~~	N	A
WINEKE	~~Y~~	N	A
2 SHIBILSKI	~~Y~~	N	A
COWLES	~~Y~~	N	A
1 PANZER	~~Y~~	N	A

AYE 12 NO 4 ABS ____

To: Joint Committee on Finance

From: Bob Lang, Director
Legislative Fiscal Bureau

ISSUE

Ticket Printing and On-Line Communication Costs (Revenue -- Lottery Administration)

[LFB Summary: Page 533, #6]

GOVERNOR

Ticket Printing: Delete $1,465,600 annually to reflect decreased costs for instant lottery ticket printing under a new printing contract entered into in 1996-97.

On-Line Communication Costs: No provision.

MODIFICATION TO BASE

Delete $3,133,400 SEG annually, as follows: (a) delete $1,268,300 annually to reflect decreased costs for instant lottery ticket printing under a new printing contract; and (b) delete $1,865,100 annually to reflect reduced on-line communication charges.

Explanation: The modification for ticket printing costs corrects the reduction made under the bill to reflect the correct difference between costs under the old and new ticket printing contracts. The corrected reduction would restore $197,300 annually in base funding for ticket printing. The correction is based on updated cost information not available to DOA during the preparation of the Governor's recommendations.

The modification for on-line communication costs reflects the anticipated savings from a reduction in telecommunications charges relating to the state's new digital network. The monthly fees for each on-line terminal are expected to decrease from the current rate of $137 to $95. The rate reduction would apply to 3,143 on-line lottery terminals. The rate reduction amount was not available to DOA during the preparation of the Governor's recommendations.

Modification	SEG
1997-99 FUNDING (Change to Base)	- $6,266,800
[Change to Bill	*- $3,335,600]*

Prepared by: Art Zimmerman

MO# Modification to the BASE

JENSEN	Y	N	A
OURADA	Y	N	A
HARSDORF	Y	N	A
ALBERS	Y	N	A
GARD	Y	N	A
KAUFERT	Y	N	A
LINTON	Y	N	A
COGGS	Y	N	A
1 BURKE	Y	N	A
2 DECKER	Y	N	A
GEORGE	Y	N	A
JAUCH	Y	N	A
WINEKE	Y	N	A
SHIBILSKI	Y	N	A
COWLES	Y	N	A
PANZER	Y	N	A

AYE 16 NO 0 ABS ____

Senator Panzer

REVENUE -- LOTTERY ADMINISTRATION

Positions

Motion:

Move to provide that the 18 positions authorized under motion #1082 be for retailer support services or customer telemarketing services.

MO# 895

JENSEN	~~Y~~	N	A
OURADA	~~Y~~	N	A
2 HARSDORF	~~Y~~	N	A
ALBERS	~~Y~~	N	A
GARD	~~Y~~	N	A
KAUFERT	~~Y~~	N	A
LINTON	~~Y~~	N	A
COGGS	Y	~~N~~	A
BURKE	Y	~~N~~	A
DECKER	Y	~~N~~	A
GEORGE	~~Y~~	N	A
JAUCH	~~Y~~	N	A
WINEKE	~~Y~~	N	A
SHIBILSKI	~~Y~~	N	A
COWLES	~~Y~~	N	A
1 PANZER	~~Y~~	N	A

AYE 13 NO 3 ABS ____

Motion #895

Representative Albers

REVENUE -- LOTTERY ADMINISTRATION

Lottery Retailer Field Services Contract

Motion:

Move to authorize DOR to contract with a wholesale distributor with an existing base of lottery retailers to provide lottery retailer field services in up to seven counties. Further, authorize a cashing bonus to retailers who provide prize payouts on winning lottery tickets, in the counties for which contracted field services are provided. Sixty days prior to expiration of any contract entered into, DOR shall review the sales within the pilot area and compare them to sales outside the contracted area and report the findings to the Joint Committee on Finance.

Note:

The motion would authorize DOR to select up to seven counties in which lottery retailers would be provided field services by a private firm that currently distributes lottery tickets to retailers. No funding would be provided for this contact; therefore, the motion would require that base funds be reallocated for the cost of the contract. Retailers can validate and redeem winning lottery tickets for prizes up to $599. The motion would provide that retailers in these selected counties that redeem a winning lottery ticket would receive some level of bonus compensation for the redemption of lottery tickets. The fiscal effect of this cashing bonus cannot be determined until DOR identifies the specific counties and the level of the cashing bonus. The cost of funding the cashing bonus would reduce the net proceeds of the lottery in each year that would be available for the lottery property tax credit.

MO# 885

JENSEN	~~Y~~	N	A
OURADA	~~Y~~	N	A
HARSDORF	Y	~~N~~	A
1 ALBERS	~~Y~~	N	A
GARD	~~Y~~	N	A
KAUFERT	~~Y~~	N	A
LINTON	~~Y~~	N	A
COGGS	Y	~~N~~	A
BURKE	Y	~~N~~	A
DECKER	Y	~~N~~	A
GEORGE	Y	~~N~~	A
JAUCH	Y	~~N~~	A
WINEKE	Y	~~N~~	A
2 SHIBILSKI	~~Y~~	N	A
COWLES	Y	~~N~~	A
PANZER	~~Y~~	N	A

AYE 8 NO 8 ABS____

FAIL

Representative Jensen

REVENUE -- LOTTERY ADMINISTRATION

Field Staff for Retailer Support Services

Motion:

Move to provide $988,200 and 18.0 SEG positions in 1997-98 and $1,057,100 SEG in 1998-99 for retailer field support services.

Note:

Funding would include supplies and services funding ($219,300 in 1997-98 and $285,200 in 1998-99) that would support travel costs and the operation and leasing of three additional field offices and one-time funding ($190,000) for laptop computers and improvements to the leased regional office space.

[Change to Base: $2,045,300 SEG]
[Change to Bill: $2,045,300 SEG]

MO# 1082

1	JENSEN	Y ✓	N	A
2	OURADA	Y ✓	N	A
	HARSDORF	Y ✓	N	A
	ALBERS	Y ✓	N	A
	GARD	Y ✓	N	A
	KAUFERT	Y ✓	N	A
	LINTON	Y ✓	N	A
	COGGS	Y	N ✓	A
	BURKE	Y	N ✓	A
	DECKER	Y	N ✓	A
	GEORGE	Y ✓	N	A
	JAUCH	Y	N ✓	A
	WINEKE	Y ✓	N	A
	SHIBILSKI	Y ✓	N	A
	COWLES	Y	N ✓	A
	PANZER	Y ✓	N	A

AYE 11 NO 5 ABS ____

To: Joint Committee on Finance

From: Bob Lang, Director
Legislative Fiscal Bureau

ISSUE

Retailer Compensation and Incentive Bonus (Revenue -- Lottery Administration)

[LFB Summary: Page 533, #7]

CURRENT LAW

Retailers are paid basic compensation of 5.5% of the retail price of lottery tickets sold by the retailer. This basic compensation is established by statute and paid from a sum sufficient appropriation. The state lottery is authorized to provide, by rule, a higher rate of basic compensation (currently, approximately 30%) to nonprofit organizations selling pull-tab lottery tickets at special events. Base funding for retailer compensation is $29,106,100 SEG.

GOVERNOR

Delete $1,932,300 in 1997-98 and $159,300 in 1998-99 for retailer compensation. Further, effective January 1, 1998, make the following modifications to the compensation paid to retailers: (a) increase the basic compensation rate for instant ticket sales (exclusive of nonprofit pull-tab sales) from 5.5% of sales to 6%; and (b) provide a 0.5% bonus for retailers meeting predetermined sales or marketing goals. Under the bill, on-line lottery sales compensation would remain at 5.5%, while the incentive would apply to retailers selling either instant ticket games or on-line games.

Provide that DOR may promulgate rules relating to the payment of an additional 0.5% rate of compensation if the retailer meets certain sales or marketing goals established by DOR. Under the bill, these goals may include all of the following: (a) an increase in the number of lottery tickets that are sold by the retailer in the current calendar quarter over the previous calendar quarter; (b) the largest increase in the state or county in which the retailer is located in the number of lottery tickets that are sold by the retailer in the current calendar quarter over the previous calendar quarter; (c) the sale by a retailer of a winning lottery ticket, whose prize is greater than $100,000; and (d) an increase in the number of different types of lottery tickets that are sold by the retailer in the current calendar year over the previous calendar year. Provide that at the time DOR submits any proposed rules for the bonus compensation to the Legislative Council, it would also submit the proposed rules to every standing committee in the Legislature that has subject matter jurisdiction over the state lottery, as determined by the Speaker of the Assembly and the President of the Senate.

DISCUSSION POINTS

1. Base level funding for retailer compensation ($29,106,100) is based on estimated 1996-97 sales of $514.5 million and basic compensation at the current rate of 5.5%. This sales estimate was made under the 1995-97 biennial budget act (1995 Act 27). Under SB 77, lottery sales are estimated at $440.4 million annually in the 1997-99 biennium. While the increases recommended by the Governor would increase costs compared to current law, base level funding for retailer compensation is reduced, under the bill, because base funding overstates the amounts needed to compensate retailers under the lower sales estimates.

2. The change to base funding under the bill results from a decrease in basic compensation under current law relating to the lower sales estimates and the increases relating to higher compensation for instant ticket sales and the incentive bonus program. These modifications are as follows:

	Change to Base	
Governor's Recommendation	1997-98	1998-99
Reestimate current law compensation	- $3,694,800	- $3,695,200
Increase instant ticket compensation	676,200	1,363,300
Incentive bonus program	1,086,300	2,172,600
Total	- $1,932,300	- $159,300

3. The actual costs of funding the increase in basic compensation and the incentive bonus program (about $1.8 million in 1997-98 and $3.5 million in 1998-99) would reduce, by these amounts, the net proceeds of the lottery in each year that would otherwise be available for the lottery property tax credit.

4. Currently, approximately 4,100 retailers sell one or more types of lottery tickets (scratch, pull-tab and on-line). In addition, 563 nonprofit organizations sell pull-tab lottery tickets. There are 3,123 on-line ticket terminals comprising the state's on-line lottery sales

network. Lottery officials indicate that there are currently 298 qualified retailers waiting to have on-line terminals installed.

5. Some lottery retailers have expressed dissatisfaction with retailer compensation rates, arguing that 5.5% is not sufficient to adequately compensate them for selling and redeeming tickets, responding to the public regarding lottery play and completing required bookkeeping. Lottery officials indicate that data regarding these costs is not available.

6. Scratch ticket sales involve more work for retailers than the sale of on-line lottery tickets, the latter being largely an automated process. The relatively more labor intensive nature of scratch ticket sales is the basis for the provision, under the bill, of a higher compensation rate for instant ticket sales than for on-line ticket sales.

7. Retailers freely choose to sell lottery tickets and the number of retailers involved in lottery sales remains relatively strong, although the total number of retailers has declined by about 340 since January, 1995. It appears, however, that lottery tickets are readily available throughout the state.

8. Beginning in July, 1995, a limited number of retailers, primarily grocery stores, stopped ordering scratch tickets from the state lottery, based on their perception that compensation of retailers for lottery sales was not adequate to cover the expense of conducting scratch ticket sales. However, because many of these retailers continue to sell on-line lottery tickets, these outlets do not account for the decline in lottery retailers.

9. It is not possible to attribute the decline in the number of retailers to any one cause. Some decline in numbers may be due to retailers going out of business. It is also possible that some retailers have ceased to sell lottery tickets due to declining sales and marketing support by the state lottery. A recent Legislative Audit Bureau (LAB) evaluation of the state lottery operation pointed out that management action to rapidly reduce lottery staff in anticipation of outsourcing various lottery functions resulted in a position vacancy rate of 63.5%. As a result, the LAB concluded that retailer services were not performed or deteriorated beginning in 1995-96. Finally, some areas of the state may have had a higher concentration of retailers than necessary to serve lottery players and retailers may have discontinued selling tickets due to low sales volume.

10. An argument is made that retailers benefit from the lottery to the extent that the sale of lottery tickets results in increased store traffic, which may lead to greater sales of other merchandise. Some retailers also sell lottery tickets as one of a variety of services provided to customers and do not appear motivated by the rate of compensation or the degree to which marketing support is provided by the state lottery.

11. Lotteries were operated in 37 states and the District of Columbia in 1995-96. In 21 jurisdictions, the compensation paid to retailers was 5%. One state and the District of

Columbia paid 4%, four states paid 5.5% and six states paid 6%. Five states paid compensation at varying rates for different game types. Twenty-two states and the District of Columbia also provided a cashing bonus to retailers paying prizes to winning ticket holders. The attachment to this paper lists the basic commission rate and the cashing bonus, if any, of each lottery jurisdiction.

12. Further, in 1994-95, 32 states and the District of Columbia provided some form of retailer incentive plan in addition to, or in lieu of, a cashing bonus (data for 1995-96 is not yet available). The types of plans vary widely, but typically include one of two approaches: (a) paying the retailer a percent of winning tickets sold by the retailer; or (b) providing additional compensation based on sales performance relative to goals.

13. Prior to 1995-96, the state lottery was authorized to promulgate rules for an incentive bonus program. However, rules were never promulgated by the state lottery and the Legislature did not provide any funding for incentive compensation. The Governor recommended repealing the rulemaking authority for an incentive bonus program in 1995-97 budget deliberations and providing a 1% increase in basic retailer compensation. The Legislature deleted the incentive bonus rulemaking authority and increased basic compensation by 0.5%, from 5.0% to 5.5%.

14. It could be argued that rules for an incentive bonus program should be promulgated before funding is allocated for the program. As noted above, under prior authorization relating to incentive bonus payments, the state lottery did not take steps to promulgate rules. In light of the current challenges facing the state lottery, the development of rules for incentive bonus payments may be delayed while higher priority concerns are addressed.

15. In addition, following the rule-making process, retailers would need to be informed and educated regarding the program, sales goals for each retailer would need to be established and an evaluation of sales for some designated period would need to be performed before bonuses could be awarded. It is unlikely any expenditures for bonus compensation would be made in 1997-98 and $1,086,300 could be deleted. Funding for the incentive bonus program in 1998-99 could also be placed in unallotted reserve, to be released by DOA pending final rules.

16. The Committee could also approve the authority of the state lottery to promulgate rules relating to an incentive bonus program, but defer a decision on funding the program until final rules are promulgated. Funding for incentive bonus payments could be provided under subsequent legislation or by the Committee under s. 13.10 of the statutes. This would reduce funding under the bill by about $1.1 million in 1997-98 and $2.2 million in 1998-99.

17. The reinstatement of a strong retailer service and support component under the state lottery could result in increased sales without an increase in the basic retailer compensation rate. Wisconsin's compensation rate is typical of what many other states pay retailers, although most other states provide some form of incentive bonus compensation. The purpose of including

an incentive program as a component of retailer compensation is to encourage higher sales. It could be argued that basic compensation be maintained at the current rate, adequate retailer services and support be reinstated and an incentive bonus program be developed as quickly as possible. This would reduce funding by $0.7 million in 1997-98 and by $1.4 million in 1998-99 to reflect the deletion of the basic compensation increase only.

18. Under the bill, at the time DOR submits any proposed rules for the bonus compensation to the Legislative Council, it would also be required submit the proposed rules to every standing committee in the Legislature that has subject matter jurisdiction over the state lottery (including the Joint Committee on Finance), as determined by the Speaker of the Assembly and the President of the Senate. DOA budget officials indicate that the provision to submit the rules to other committees is intended to provide additional legislative participation and oversight regarding the incentive compensation of lottery retailers. The bill does not specify how these additional committees would review a proposed rule or how this additional review would operate in conjunction with the procedures established under current law for the promulgation of administrative rules. However, the provision of draft rules to all relevant committees could result in a greater degree of deliberation on the proposed rules than would otherwise occur.

ALTERNATIVES TO BASE

A. Current Law Base Adjustment

A1. Adopt the Governor's recommendation to delete $3,694,800 in 1997-98 and $3,695,200 in 1998-99 to reflect the reestimate of basic retailer compensation based on estimated lottery sales of $440.4 million annually in the 1997-99 biennium.

Alternative A1	SEG
1997-99 FUNDING (Change to Base)	- $7,390,000
[Change to Bill	*$0]*

B. Increase Retailer Compensation

B1. Adopt the Governor's recommendation to provide $676,200 in 1997-98 and $1,363,300 in 1998-99 to increase the basic compensation rate for instant ticket sales from 5.5% to 6.0%, effective January 1, 1998.

Alternative B1	SEG
1997-99 FUNDING (Change to Base)	$2,039,500
[Change to Bill	*$0]*

B2. Maintain current law.

Alternative B2	SEG
1997-99 FUNDING (Change to Base)	$0
[Change to Bill	*- $2,039,500]*

C. Incentive Bonus Program

C1. Adopt the Governor's recommendation to provide $1,086,300 in 1997-98 and $2,172,600 in 1998-99 for a 0.5% bonus for retailers meeting predetermined sales or marketing goals. Provide that DOR may promulgate rules relating to the payment of an additional 0.5% rate of compensation if the retailer meets certain sales or marketing goals established by DOR.

Alternative C1	SEG
1997-99 FUNDING (Change to Base)	$3,258,900
[Change to Bill	*$0]*

C2. Provide $2,172,600 in 1998-99 in unallotted reserve, for release by DOA, pending the promulgation of final rules for an incentive bonus program for retailers meeting predetermined sales or marketing goals.

Alternative C2	SEG
1997-99 FUNDING (Change to Base)	$2,172,600
[Change to Bill	*- $1,086,300]*

C3. Provide that DOR may promulgate rules relating to the payment of an additional 0.5% rate of compensation if the retailer meets certain sales or marketing goals established by DOR. Under this alternative, funding for an incentive sales bonus program would require subsequent legislation or action under s. 13.10 of the statutes.

Alternative C3	SEG
1997-99 FUNDING (Change to Base)	$0
[Change to Bill	*- $3,258,900]*

C4. Maintain current law.

Alternative C4	SEG
1997-99 FUNDING (Change to Base)	$0
[Change to Bill	*- $3,258,900]*

Prepared by: Art Zimmerman

MO# Alt #C1

JENSEN	Y	N	A
OURADA	Y	N	A
HARSDORF	Y	N	A
ALBERS	Y	N	A
GARD	Y	N	A
1 KAUFERT	Y	N	A
2 LINTON	Y	N	A
COGGS	Y	N	A
BURKE	Y	N	A
DECKER	Y	N	A
GEORGE	Y	N	A
JAUCH	Y	N	A
WINEKE	Y	N	A
SHIBILSKI	Y	N	A
COWLES	Y	N	A
PANZER	Y	N	A

AYE 8 NO 8 ABS ____

FAIL

MO# Alt A1

2 JENSEN	Y	N	A
OURADA	Y	N	A
HARSDORF	Y	N	A
ALBERS	Y	N	A
GARD	Y	N	A
KAUFERT	Y	N	A
LINTON	Y	N	A
COGGS	Y	N	A
1 BURKE	Y	N	A
DECKER	Y	N	A
GEORGE	Y	N	A
JAUCH	Y	N	A
WINEKE	Y	N	A
SHIBILSKI	Y	N	A
COWLES	Y	N	A
PANZER	Y	N	A

AYE 16 NO 0 ABS ____

ATTACHMENT

Retailer Compensation
U.S. Lotteries
1995-1996

	Compensation Rate	Cashing Bonus
Arizona	6%	
California	6	3% for $99 to $599
Colorado	5.5	1
Connecticut	5	
Delaware	5	
D.C.	4	4 (instant), 3 (on-line)
Florida	5	1
Georgia	5 (7 for Cash 3)	2
Idaho	5	$1,000 for high tier on-line
Illinois	5	1
Indiana	5.5	1
Iowa	5	1
Kansas	5	1
Kentucky	5	1
Louisiana	5	Up to 2
Maine	8 (instant), 5 (on-line)	
Maryland	4	3
Massachusetts	5	1
Michigan	6	2
Minnesota	5	
Missouri	5 (8 for pull-tab)	2
Montana	5	
Nebraska	5	
New Hampshire	5	1
New Jersey	5	1.25
New Mexico	6	1
New York	6	
Ohio	5.5	Up to 1.5
Oregon	5 (3 for self-serve on-line)	1
Pennsylvania	5	
Rhode Island	5 (instant), 8 (on-line)	
South Dakota	5	1
Texas	5	
Vermont	5	
Virginia	5	
Washington	6	
West Virginia	5	1
Wisconsin	5.5	

Representative Kaufert

REVENUE -- LOTTERY ADMINISTRATION

Retailer Compensation for Instant Ticket Sales

Motion:

Move to provide $2,039,800 SEG in 1997-98 and $4,105,300 SEG in 1998-99 and, effective January 1, 1998, increase basic retailer compensation from 5.5% of sales to 7.0% for instant ticket sales.

Note:

Basic compensation for lottery sales, under current law, is 5.5%. Based on instant ticket sales of $272.0 million in 1997-98 and $273.7 million in 1998-99, the increase in basic compensation for instant ticket sales to 7.0% ($2,039,800 SEG in 1997-98 and $4,105,300 SEG in 1998-99) would reduce, by these amounts, the net proceeds of the lottery in each year available for the lottery property tax credit.

[Change to Base: $6,145,100 SEG]
[Change to Bill: $4,105,600 SEG]

MO# 840

JENSEN	~~Y~~	N	A
OURADA	~~Y~~	N	A
HARSDORF	~~Y~~	N	A
ALBERS	~~Y~~	N	A
GARD	~~Y~~	N	A
1 KAUFERT	~~Y~~	N	A
2 LINTON	~~Y~~	N	A
COGGS	~~Y~~	N	A
BURKE	~~Y~~	N	A
DECKER	Y	~~N~~	A
GEORGE	~~Y~~	N	A
JAUCH	Y	~~N~~	A
WINEKE	~~Y~~	N	A
SHIBILSKI	~~Y~~	N	A
COWLES	~~Y~~	N	A
PANZER	~~Y~~	N	A

AYE 14 NO 2 ABS ___

Motion #840

Representative Kaufert

REVENUE -- LOTTERY ADMINISTRATION

Retailer Compensation

Motion:

Move to provide $2,449,800 SEG in 1997-98 and $4,914,600 SEG in 1998-99 and, effective January 1, 1998, increase basic retailer compensation from 5.5% of sales to: (a) 7.0% for instant ticket sales; and (b) 6.0% for on-line ticket sales.

Note:

Basic compensation for lottery sales, under current law, is 5.5%. Based on $440.4 million in annual sales, the increase in basic compensation for instant ticket sales to 7.0% would require an additional $2,039,800 SEG in 1997-98 and $4,105,300 SEG in 1998-99. The increase in basic compensation for on-line sales to 6.0% would require $410,000 SEG in 1997-98 and $809,300 SEG in 1998-99. The costs of funding this increase in basic compensation would reduce, by these amounts, the net proceeds of the lottery in each year available for the lottery property tax credit.

[Change to Base: $7,364,400 SEG]
[Change to Bill: $5,324,900 SEG]

MO# 820

	JENSEN	Y	~~N~~	A
	OURADA	Y	~~N~~	A
	HARSDORF	Y	~~N~~	A
	ALBERS	Y	~~N~~	A
	GARD	Y	~~N~~	A
1	KAUFERT	~~Y~~	N	A
2	LINTON	~~Y~~	N	A
	COGGS	~~Y~~	N	A
	BURKE	Y	~~N~~	A
	DECKER	Y	~~N~~	A
	GEORGE	~~Y~~	N	A
	JAUCH	Y	~~N~~	A
	WINEKE	~~Y~~	N	A
	SHIBILSKI	~~Y~~	N	A
	COWLES	Y	~~N~~	A
	PANZER	Y	~~N~~	A

AYE 6 NO 10 ABS ____

Motion #820

To: Joint Committee on Finance

From: Bob Lang, Director
Legislative Fiscal Bureau

ISSUE

Lottery Television Broadcasts (Revenue -- Lottery Administration)

[LFB Summary: Page 534, #8]

CURRENT LAW

The state lottery currently allocates $312,000 SEG in base funds for a contract to produce and broadcast the lottery TV game show and the drawings for five on-line games.

GOVERNOR

Provide $998,000 SEG in 1997-98 and $938,000 SEG in 1998-99 for the production and broadcast costs relating to the lottery's TV game show and on-line lottery game drawings, as follows:

a. $588,000 annually to continue the production and broadcast of the lottery's TV game show and to enhance the show through the development of new formats; and

b. $410,000 in 1997-98 and $350,000 in 1998-99 for the production and broadcast costs of on-line lottery game drawings.

DISCUSSION POINTS

1. The current broadcast contract (with WISN in Milwaukee), under which the lottery's TV game show and on-line drawings are produced and broadcast, ends August 9, 1997. The contract has a one-year renewal option which could extend the contract to August, 1998.

The renewal option must be agreed to by both the state lottery and the TV station. Lottery officials are in the early stages of negotiations regarding a contract extension or renegotiation for a new contract.

TV Game Show

2. The Governor's recommended increase would provide a total of $900,000 annually for the game show ($312,000 in base funds and $588,000 under the bill). Under the bill, one-half of the recommended funding increase ($294,000 annually) would be placed in unallotted reserve until actual costs are documented. This would leave $606,000 in allocated funding immediately available for the TV game show.

3. Of 38 lottery jurisdictions in the United States, nine produce lottery TV game shows, including Wisconsin. The Wisconsin game show (the Money Game) began in 1989 and the format of the show has not changed over time. Players qualify as contestants on the show by winning certain instant games that are designed for the TV game show. Lottery officials indicate that about six instant games relating to the TV game show are introduced each year and that 10 such games are currently active.

4. The Governor's recommendation reflects the Department of Revenue (DOR) lottery budget request. Developing a new TV game show would, according to lottery officials, broaden the appeal of the show, expand the player base for lottery games and increase lottery sales. However, DOR survey data from other states that redesigned their televised games shows little evidence that the redesigned shows lead to increases in lottery sales.

5. The Wisconsin lottery game show is carried by a consortium of six stations broadcasting from Eau Claire, Green Bay, La Crosse, Madison, Milwaukee and Wausau. Currently, five of the stations broadcast the show late on Saturday or Sunday night, between 10:30 p.m. and 1:00 a.m. One station broadcasts the show on Sunday at 11:30 a.m. The number of viewers in these time-slots is low. A change in the show's format could help to create renewed interest in the show and better broadcasting time-slots.

6. According to lottery officials, the lottery TV game show is popular with players who enjoy playing the TV-qualifying instant games and competing to be on the show. These players represent a stable subset of lottery customers, generally older players, who remain loyal to the TV games and the show itself.

7. While the number of viewers is low, due to the broadcast time-slots and the older audience the show attracts, it can be argued that the game show still provides publicity for lottery products and helps to sustain lottery sales.

8. If the contract to produce the show is not renewed or successfully re-bid, the lottery would still have TV game show instant tickets already sold or in the "pipeline" that would

require completion of the prize structure associated with these games. In other words, even without the broadcast of an actual TV show, a drawing process (multiple drawing "events") would still be required in order to comply with the games' prize payout structure.

9. These drawings could be done by the lottery, in the absence of the TV show, within the lottery offices. Under this scenario, the players competing for the prizes would likely be disappointed in not being on TV and sales levels for these games would likely decline. Further, the public relations value of the TV show to the lottery would be lost. There appears to be a strong incentive, then, to renew the current contract or to negotiate a new contract.

10. The lottery's budget request describes an implementation planning process for the development of a new TV game show that includes: (a) research to determine player satisfaction with the current game show; (b) the creation of performance measures to develop and evaluate new game show formats; (c) the development of a contract to research new show formats; (d) revisions to the current game show format; (e) a bidding process to award a new contract for the game show's production and broadcast; and (f) a public relations campaign to inform players about the new game show.

11. Lottery officials indicate, however, that work on this implementation plan has not yet begun. It could be argued that the lottery would need at least a year to complete the tasks needed to award a contract relating to a new TV show. The Governor's recommended funding could be deleted in 1997-98 and all recommended funds in 1998-99 could be placed in unallotted reserve for release by DOA when a contract for an enhanced TV show is awarded and costs have been determined. Base funding for the current TV contract would remain in place and would also be available for a new contract.

12. Alternatively, the Committee could maintain current law and delete the recommended funding under the bill. Base funding for the current TV contract would remain in place. Pending the outcome of contracting decisions, the current show could continue under base funding or be terminated. In either case, outstanding prizes associated with the TV game show instant tickets would need to be awarded in a manner consistent with legal obligations.

13. Under current law, the lottery could still carry out a planning process for an enhanced TV show. If the costs associated with a new TV show format were higher than available base funding, additional funding would need to be requested under s. 13.10 of the statutes or in the agency's 1999-2001 budget request.

On-line Drawings

14. The drawings for five on-line lottery games are also produced and broadcast under the current broadcasting contract. Lottery officials indicate that the contract costs relate entirely to the TV game show and that the on-line drawings are provided without charge. While the drawings are viewed as having news value and attract viewers interested in the outcome of the

drawings, the current contractor may not be willing to continue to produce and broadcast the drawings without charge in the future.

15. The winning numbers relating to on-line games can be made public in several ways: (a) live TV broadcasts of game drawings; (b) tape-delayed broadcasts of the live drawing; and (c) displaying winning numbers on TV without broadcasting the actual drawing. All three of these options are currently utilized in Wisconsin. To reduce costs, some state lotteries have ended the broadcasting of the drawings and, instead, provide the winning numbers to the media.

16. Under the bill, $350,000 would be provided annually for production costs of the drawings and $60,000 would be provided in one-time costs in 1997-98 to inform lottery retailers and players of changes in the on-line game drawing policy. The funding would be placed in unallotted reserve and released, according to DOA budget officials, following a documentation of actual costs and the completion of market research to evaluate the impact of the broadcasts.

17. The broadcasting of on-line drawings provides daily publicity for the state lottery. It could be argued that maintaining this daily exposure would be worth some additional contract costs. Lottery officials indicate that, while future on-line drawings could be handled under a contract that includes the TV show, it is also possible for the lottery to produce the drawings in-house.

18. If on-line drawings are produced in-house (and not as part of a package contract that includes the TV game show), a TV station may, however, have less incentive to continue broadcasting the drawings free-of-charge. Additional costs to purchase time-slots to show the drawings could then be incurred. A media consultant for the state lottery estimates that the annual market value of these time-slots totals approximately $3.6 million. While airing the drawings may not approach this level of cost, any eventual cost for air time could result in exploring other methods of publicizing winning lottery numbers.

19. The recommended funding under the bill is based on the lottery's budget request and reflects an estimate of the cost of producing the on-line drawings in-house. The budget request also indicates that the actual costs associated with the on-line game drawings are not clearly known at this time, but are expected to fall in the range of $200,000 to $500,000 annually. The agency budget request and the Governor's recommendation of $350,000 represents the midpoint within this range.

20. Lottery officials indicate that the eventual costs of producing and broadcasting the drawings will depend on: (a) whether the drawings are produced in-house by the lottery or under a new contract; and (b) to what extent, if any, the lottery will need to purchase air time for broadcasting the drawings.

21. The extension of the current contract for one year would ensure that the drawings would continue for that period without cost. It is also possible that a new TV game show contract could continue to include the on-line drawing telecasts. Depending on the cost of a new

contract, some or all of the funds for on-line drawings recommended under the bill may not be needed.

22. Given the uncertainty about the budgetary need for on-line drawings, the administration's provision to place the funding in unallotted reserve would seem appropriate. DOA would release the funds only after a documentation of actual costs and the completion of market research to evaluate the impact of the broadcasts.

23. The $60,000 in one-time funding to inform lottery retailers and players of changes in the on-line game drawing policy appears to be speculative. Lottery officials indicate that a player brochure may be revised to explain new drawing policies, but base funding for such revisions should be available. Further, if the drawing policy does not appreciably change in the 1997-99 biennium, there would be no need for this funding. This funding could be deleted.

24. The Committee could also deny the recommended funding at this time. If the lottery does not successfully negotiate a broadcasting contract that includes on-line drawings and is not able to reallocate base funding to address this need, the agency could submit a request under s. 13.10 for additional funding when actual costs are known. However, the coordination of a request under s. 13.10 with the timely need for funding may be problematic. Providing the funding in unallotted reserve would provide the lottery with greater flexibility to quickly respond to changing needs in this area.

ALTERNATIVES TO BASE

A. TV Game Show

A1. Adopt the Governor's recommendation to provide $588,000 SEG annually for the production and broadcast costs relating to the lottery's TV game show. Place $294,000 annually of this amount in unallotted reserve, to be released by DOA, after actual costs are documented.

Alternative A1	SEG
1997-99 FUNDING (Change to Base)	$1,176,000
[Change to Bill	*$0]*

A2. Provide $588,000 SEG in 1998-99 for the production and broadcast costs relating to the lottery's TV game show. Place the funding in unallotted reserve, to be released by DOA, after actual costs are documented.

Alternative A2	SEG
1997-99 FUNDING (Change to Base)	$588,000
[Change to Bill	*- $588,000]*

A3. Maintain current law.

Alternative A3	SEG
1997-99 FUNDING (Change to Base)	$0
[Change to Bill	*- $1,176,000]*

B. On-Line Game Drawings

B1. Adopt the Governor's recommendation to provide $410,000 SEG in 1997-98 and $350,000 SEG in 1998-99 for the production and broadcast costs of on-line lottery game drawings. Place the funding in unallotted reserve to be released by DOA following documentation of actual costs and the completion of market research to evaluate the impact of the broadcasts. Provide that the 1997-98 funding would include $60,000 in one-time costs to inform lottery retailers and players of changes in the on-line game drawing policy.

Alternative B1	SEG
1997-99 FUNDING (Change to Base)	$760,000
[Change to Bill	*$0]*

B2. Provide $350,000 SEG annually for the costs of on-line lottery game drawings. Place the funding in unallotted reserve to be released by DOA following documentation of actual costs and the completion of market research to evaluate the impact of the broadcasts.

Alternative B2	SEG
1997-99 FUNDING (Change to Base)	$700,000
[Change to Bill	*- $60,000]*

B3. Maintain current law.

Alternative B3	SEG
1997-99 FUNDING (Change to Base)	$0
[Change to Bill	*- $760,000]*

MO# A1 # A2

JENSEN	Y	N	A
1 OURADA	Y	N	A
HARSDORF	Y	N	A
ALBERS	Y	N	A
2 GARD	Y	N	A
KAUFERT	Y	N	A
LINTON	Y	N	A
COGGS	Y	N	A
BURKE	Y	N	A
DECKER	Y	N	A
GEORGE	Y	N	A
JAUCH	Y	N	A
WINEKE	Y	N	A
SHIBILSKI	Y	N	A
COWLES	Y	N	A
PANZER	Y	N	A

AYE 6 NO 10 ABS ____

Prepared by: Art Zimmerman

PAPER #724

MO# AH #B2

2 JENSEN	~~Y~~	N	A
OURADA	~~Y~~	N	A
HARSDORF	~~Y~~	N	A
ALBERS	~~Y~~	N	A
GARD	~~Y~~	N	A
KAUFERT	~~Y~~	N	A
LINTON	~~Y~~	N	A
COGGS	~~Y~~	N	A
1 BURKE	~~Y~~	N	A
DECKER	Y	~~N~~	A
GEORGE	Y	~~N~~	A
JAUCH	Y	~~N~~	A
WINEKE	Y	~~N~~	A
SHIBILSKI	Y	~~N~~	A
COWLES	Y	~~N~~	A
PANZER	~~Y~~	N	A

AYE 10 NO 6 ABS ____

ATTACHMENT

1995-96 Advertising Data

	Population (Millions)	Sales (Millions)	Sales Per Capita	Advertising Budget (Millions)	Advertising Per Capita	Advertising % of Sales
Arizona	4.075	$258.8	$64	$10.4	$2.55	4.02%
California	31.431	2,295.5	73	38.4	1.22	1.67
Colorado	3.656	331.4	91	5.4	1.48	1.63
Connecticut	3.275	706.2	216	3.3	1.01	0.47
D.C.	0.57	214.5	376	N.A.	N.A.	N.A.
Delaware	0.706	188.9	268	1.9	2.69	1.01
Florida	13.953	2,117.1	152	29.5	2.11	1.39
Georgia	7.055	1,592.0	226	N.A.	N.A.	N.A.
Idaho	1.133	92.2	81	1.9	1.68	2.06
Illinois	11.752	1,637.4	139	22.0	1.87	1.34
Indiana	5.752	621.3	108	N.A.	N.A.	N.A.
Iowa	2.829	190.0	67	5.7	2.01	3.00
Kansas	2.554	182.1	71	2.5	0.98	1.37
Kentucky	3.827	542.8	142	9.0	2.35	1.66
Louisiana	4.315	289.2	67	6.2	1.44	2.14
Maine	1.24	148.7	120	2.8	2.26	1.88
Maryland	5.006	1,113.4	222	10.7	2.14	0.96
Massachusettes	6.041	3,050.0	505	0.8	0.13	0.03
Michigan	9.496	1,437.8	151	13.6	1.43	0.95
Minnesota	4.567	375.7	82	8.6	1.88	2.29
Missouri	5.278	422.5	80	9.5	1.80	2.25
Montana	0.856	31.8	37	N.A.	N.A.	N.A.
Nebraska	1.623	81.8	50	2.5	1.54	3.06
New Hampshire	1.137	162.9	143	3.6	3.17	2.21
New Jersey	7.904	1,587.8	201	3.5	0.44	0.22
New Mexico	1.7	28.4	17	0.9	0.53	3.17
New York	18.169	3,610.6	199	30.6	1.68	0.85
Ohio	11.102	2,379.5	214	14.4	1.30	0.61
Oregon	3.086	700.9	227	8.0	2.59	1.14
Pennsylvania	12.052	1,673.8	139	18.4	1.53	1.10
Rhode Island	0.997	455.2	457	1.5	1.50	0.33
South Dakota	0.721	205.3	285	0.8	1.11	0.39
Texas	18.378	3,430.0	187	42.2	2.30	1.23
Vermont	0.58	74.7	129	0.3	0.52	0.40
Virginia	6.552	924.3	141	17.3	2.64	1.87
Washington	5.343	389.9	73	9.9	1.85	2.54
West Virginia	1.822	210.3	115	2.8	1.54	1.33
Wisconsin	5.082	482.1	95	4.6	0.91	0.95
Totals	182.608	$30,430.4	$167	$286.0	$1.57	0.94%